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## INTELLIGENCE REPORT

### THE SITUATION IN SOUTH VIETNAM

### DIRECTORATE OF INTELLIGENCE

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NOTE

In the future, the weekly Intelligence Report on The Situation in South Vietnam will be produced by the Directorate of Intelligence so as to permit dissemination on Monday of each week. This change is intended to facilitate timely incorporation of material from the reports of US agencies in South Vietnam. The next edition of The Situation in South Vietnam will be disseminated on Monday, 27 June 1966.

No. 0378/66

CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM

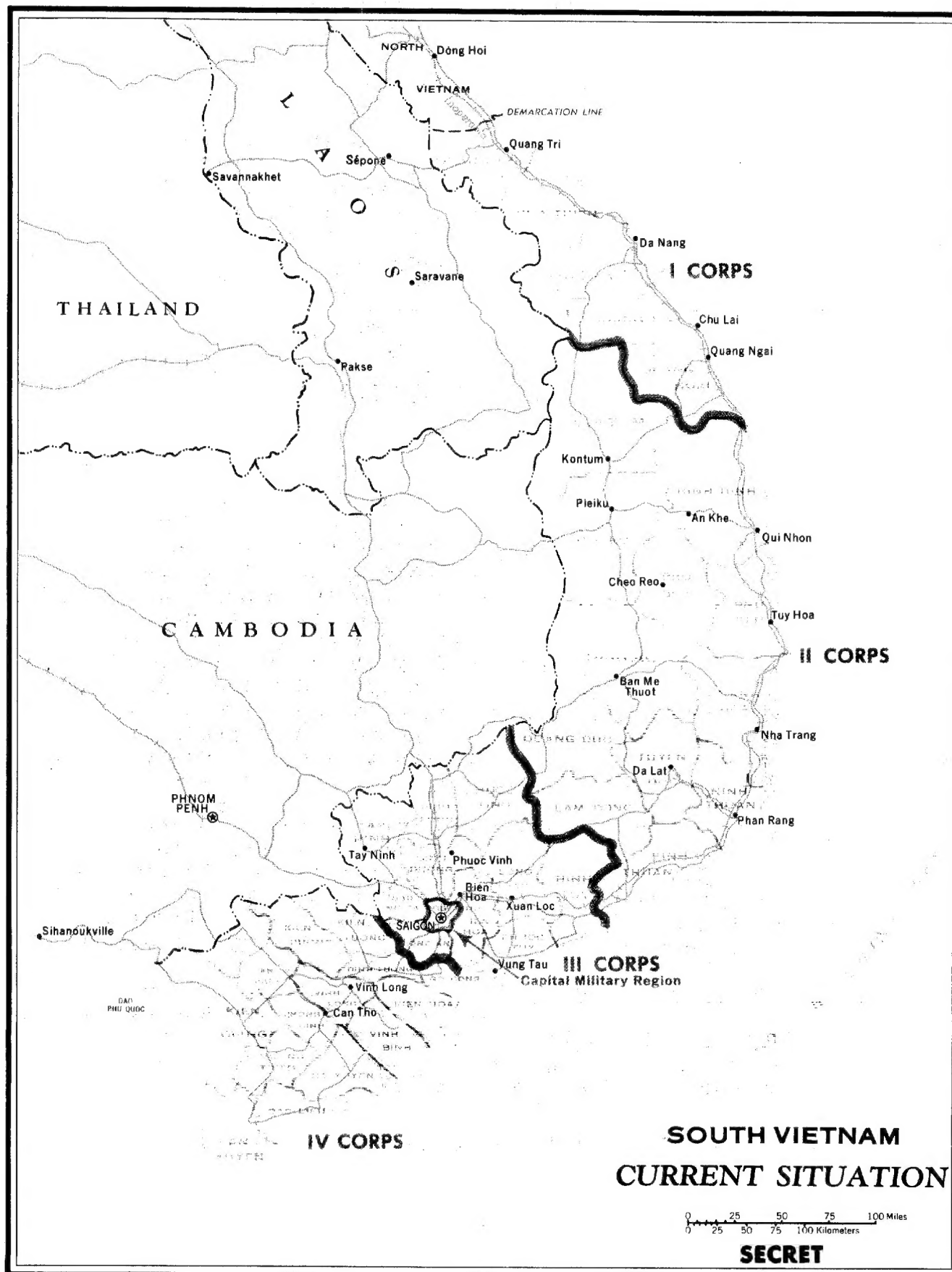
(9 June - 15 June 1966)

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## I. POLITICAL SITUATION

This week, the re-emergence of a strong militant element among Buddhist leaders in Saigon resulted in new attempts to stage demonstrations in the capital. Despite a continuing impasse between the government and dissident elements in Hue, Premier Ky reportedly feels that he has the Buddhists well in hand, however, and he is planning several major events on 19 June, his first anniversary as premier. It is possible that some further changes in major military commands may be announced in the near future.

### The GVN-Buddhist Confrontation

1. Buddhist Institute chairman Tam Chau again departed the capital for a coastal resort on 13 June, after his appeals for moderation apparently gained little support from most other ranking institute monks. Demonstrations began hours later, and the number of altars in the streets around the Buddhist Institute also increased considerably after Chau's appeal for their removal was countermanded by other Buddhist leaders. Thus far, police have dispersed all crowds attempting to reach the downtown area, and have begun checking the identities of a large number of demonstrators for eligible draftees and persons wanted by the police.

2. There were indications earlier in the week of the cleavage existing between militant and moderate Buddhists over tactics to be used in the struggle against the government. This could be seen in the appearance of conflicting communiqués from the Buddhist Institute. Moderate monk Tam Chau was apparently behind the issuance of a 15-point communiqué that contained strong anti-Communist and antineutralist statements. He reportedly also expressed a willingness to cooperate with police in the apprehension of Viet Cong and other extremists masquerading as Buddhist monks. At the same time, however, an unsigned institute communiqué supported militant Tri Quang in his call for a boycott of the September elections.

3. An uneasy coexistence between government forces and dissident elements continued in Hue throughout the past week. A large number of Buddhist altars remained in the streets and commercial activity has been well below normal. Although Tri Quang continues his hunger strike, he is reported in a seriously weakened state and may soon find it expedient to heed the appeals of his religious superiors and peers to desist. National police director Loan, a strong force behind the government's efforts to restore control in I Corps, arrived on 13 June, but thus far has exercised restraint in directing the activities of his police field forces. However, US observers tend to feel that psychological pressures alone will not be sufficient, and Loan may take more direct action before 19 June, the first anniversary of the Ky government.

#### Election Law Changes

4. In reviewing the September election law draft, the enlarged civilian-military Directorate decided to strike the provision that allowed the constituent assembly to assume a legislative function in addition to its constitution drafting duties. Other major changes made by the Directorate included a reduction in the number of elected deputies from about 159 to approximately 120, and the substitution of a modified list method of voting in place of candidacies by single individuals.

5. Although the functions of the constituent assembly had previously been a major issue, the changes brought little immediate response from the Buddhists, who have announced their intention to boycott the September elections. However, the Buddhists may seize upon the Directorate's decision to limit the function of the assembly in order to justify their boycott and urge other groups to do likewise.

#### Other Government Developments

6. The government is planning a number of events on its 19 June anniversary, which has been proclaimed Armed Forces Day. The final election law draft and the creation of the 80-man military-civilian advisory council will be officially promulgated. Also Premier Ky is planning to make a major address reviewing the

accomplishments of his regime and outlining the future plans of his government.

7. Continued negotiations between government representatives and FULRO, the dissident tribal autonomy movement, are apparently making headway. A special statute satisfying most of FULRO's grievances has been drafted, and the Commissioner for Montagnard Affairs reportedly hopes to get Premier Ky's agreement to it "in principle" within the next few days. The commissioner believes that this step would lead to the return of several hundred FULRO adherents to the government. The details of a final statute could then be worked out at a conference with the new returnees.

#### Military Unity

8. Reports of various conversations and intrigues among military elements in the government suggest that a new equilibrium among military factions has not yet been reached. Premier Ky, who relied heavily upon the militant faction of "young turks" in his move on Da Nang, reportedly has not yet decided whether to promote various members within this faction, or to cut down their influence by reassigning them to dispersed areas.

9. In addition, no final decision has yet been reached on the question of what to do with senior officers--such as Generals Thi, Dinh, Chuan, Nhuan, and Cao--who were involved in the antigovernment movement. It is possible, for example, that General Thi might be given a position within the Saigon area. Such a move would probably necessitate the removal of Thi's adversary, Deputy Premier Co, who is a member of a faction urging a complete break with the former dissident generals.

#### Students

10. The recent resignation of the Saigon University Student Union president has apparently necessitated the holding of new student union elections sometime soon. The US Embassy has commented that "struggle force" proponents have been making inroads

in associated student executive committees since the government applied force in Da Nang on 15 May. Other student leaders still refusing to commit themselves to an antigovernment campaign have been subjected to considerable pressure and intimidation, and continued control by moderates is in some doubt. However, pro-"struggle" students at Saigon University's School of Medicine who held antigovernment rallies this week were threatened by police with a loss of their draft exemptions and more than 100 of them were arrested.

#### Catholic Rally

11. Catholics in Saigon showed impressive strength in a large, well-organized, weekend demonstration that stressed anti-Communism, pro-Americanism, and support for the South Vietnamese military establishment. The rally was designed to demonstrate that the Catholics are a force to be reckoned with in any future political structure. The success of the demonstration also served to establish the strength of the recently revised leadership of the Catholic Citizens Bloc, and to downgrade the influence of individual Catholics--such as northern refugee leader Father Hoang Quynh--who have expressed some sympathy with the antigovernment stand of the Buddhist Institute.

## II. REVOLUTIONARY DEVELOPMENT

The field of revolutionary development is highlighted this week by the receipt of the US Mission report on progress in the program during May. Other information is reported on how the 1966 funds for pacification and civic development will be spent. As expected, the political unrest has caused a continued setback in the implementation of civic action programs in some areas, but there are some bright spots, particularly in the provision of security to elements engaged in the program outside the I Corps area.

### Implementation of the Over-all Pacification Program

1. The allocation of funds within the over-all pacification effort provides a partial indication of which aspects of the program are currently receiving the strongest emphasis.

2. Of the 14 categories in the program used for budget purposes, three areas are earmarked to get 57 percent of the total 1966 funds: refugee resettlement, rural education, and the construction of bridges and roads. The program to improve rural education facilities includes the hiring and training of 2,604 hamlet-level teachers and the construction of 2,251 hamlet classrooms. Each hamlet is allowed up to three classrooms; each of the classrooms can accommodate 60 students. To enhance interprovincial communication and the delivery of agricultural goods to market centers, over 500 miles of roads and 148 bridges, ferries, and markets are scheduled for construction using 1966 funds.

3. Part of the remaining 43 percent of the budget covers programs such as the training and funding of revolutionary development cadre groups, and the accommodation and processing of the Chieu Hoi defectors. The remainder of the funds are utilized for assistance programs that receive little publicity abroad, but are popular among the rural population. These include programs for the improvement

of agriculture, pisciculture, and animal husbandry, for canal and dam construction, and for the construction of storage facilities for agricultural products.

4. The implementation of revolutionary development plans involves coordination among several Vietnamese ministries, all of which are heavily engaged in the total program to speed the social evolutionary process in South Vietnam.

#### 1966 Pacification Goals

5. According to a Central Revolutionary Development Board planning paper, the 43 provinces of South Vietnam have obligated themselves to realize at least 75 percent of their total pacification goals programmed for 1966. This includes the incorporation of over one million people into 969 new hamlets. Another million will be consolidated into 1,083 existing hamlets. In these hamlets, the cadre groups will organize the inhabitants to defend themselves, self-governing units will be elected, and members will be appointed to the next highest village administrative council. The 1966 plan also calls for the continuing development of 3,260 newly pacified hamlets and urban centers with an estimated population of 7,842,000. There is presently a total of 13,211 hamlets in South Vietnam.

#### Monthly Progress Report

6. According to the special report by the US Mission on revolutionary development progress for May, only 16 of the 43 provinces and three autonomous cities are either keeping up with or are ahead of their monthly development schedules. Although delays in the distribution of construction materials remained a problem in most provinces, essential items such as cement and materials for building defensive fortifications have become more readily available in the past eight weeks.

7. Some provinces report that the GVN officials who administer the pacification projects have been accepting unsatisfactory construction work in order

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to meet the revolutionary development goals that were programmed for 31 May. This tendency, which was typical in reporting on civilian programs under the Diem regime, has been taken into account by US officials who advise on implementation of the projects in the provinces.

8. Difficulties in recruiting manpower for security forces were still reported as severe during May.

9. I Corps. Several months of political turbulence in the northern provinces has resulted in considerable inertia in the pacification effort there during May. Security for the pacification cadre was provided largely by allied forces inasmuch as most of the I Corps units have been inactive in military patrol duties. There are still serious shortages of construction materials and selected consumer items due largely to transportation strikes. The high rate of official personnel changes at all levels has also had an adverse effect on the program. In addition, officials cite an increase in assassinations, kidnappings, and proselyting of villagers by the Viet Cong.

10. II Corps. The over-all revolutionary development program moved ahead significantly in this area, recouping some losses from previous months. The general security situation for the improvised cadre teams improved as a result of ARVN and allied combat operations. Despite some price increases, consumer goods were in adequate supply and commerce was reported to be flourishing in all provinces. Only two II Corps provinces reported a lack of adequate regional and popular force elements, who are used to provide security for the pacification workers in the villages outside the provincial capitals.

11. III Corps. An improvement in the morale and effectiveness of security forces in the provinces around Saigon was reported in the III Corps pacification effort. Viet Cong incidents decreased in both number and intensity. No particular problems were noted in III Corps in the supply of consumer goods or of construction materials for self-help projects.

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12. IV Corps. Of 14 provinces in the area, five are reported behind in the implementation of their provincial plans through May, due largely to problems associated with insufficient security forces, inadequate transportation, and construction material shortages. The high cost of living continues to trouble wage earners, especially government employees, who have not had wage increases sufficient to offset the rising prices.

Returnees (Chieu Hoi)

13. As a result of greater military contacts, the Communist defector tally for the week ending 10 June increased slightly to 354, of whom 238 were military personnel. Among the more noteworthy defectors were the deputy chief of a Viet Cong southern base area, a local force platoon leader, two main force squad leaders, and three main force assistant squad leaders. The cumulative returnee total since the beginning of 1966 is 8,879, an average of approximately 55 persons per day.

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### III. ECONOMIC SITUATION

Retail prices in Saigon declined slightly in the week ending 6 June, as did the prices of \$10 bills and \$10 MPC (scrip). Talks began between the US and GVN on civil aviation matters, and the GVN approved investment guarantees for Chase Manhattan and Bank of America. Recent data suggest a continuation of the upward trend in industrial production.

#### Prices

1. As supplies became more plentiful, retail prices in Saigon declined slightly in the week ending 6 June. Among imported commodities, the prices of condensed milk, wheat flour, sugar, and cement declined as additional supplies arrived on the market. Prices of iron and steel products, however, continued the rise that began two weeks ago in response to new arrangements made by the Ministry of Economy for the direct supply of end-users. Over-all, the USAID retail price index was four percent above a month ago and two percent above the monthly average for May. (A table of retail prices in Saigon is included in the annex.)

2. Wholesale rice prices in Saigon have continued to rise in spite of somewhat improved deliveries. By 7 June the price of the cheapest type of rice, which includes 25 percent broken, was more than 1,000 piasters per 100 kilograms compared with roughly 700 piasters at the beginning of the year. In response to this situation, the GVN has agreed to begin sales of imported rice on 13 June in Saigon at a price of about 900 piasters per 100 kilograms.

#### Currency and Gold

3. On the Saigon free market, the price of \$10 bills fell from its all-time high of 189 to 186 piasters per dollar. Similarly, the price of \$10 MPC (scrip) fell to 123 from its previous high of 134 piasters per dollar. MPC, therefore, has now

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largely lost the premium over the official rate which it had acquired with the onset of civil disturbances. In spite of the decline in the price of \$10 bills and \$10 MPC, gold remained unchanged at its all-time high of 289 piasters per dollar, probably indicating continued uncertainty in the commercial community. In Hong Kong, the piaster-dollar cross rate, which customarily lags behind movements in Saigon, rose to 166.

#### Civil Aviation

4. Talks between GVN and US officials on Pan American's scheduled traffic rights in South Vietnam began in an atmosphere of tension. An order by the Vietnamese Directorate of Civil Aviation, discontinuing Pan American's rights on the Saigon - Hong Kong and Saigon-Singapore sectors as of 6 June, was temporarily suspended after personal representation by Ambassador Lodge to Premier Ky. The US Embassy has proposed a two-year unilateral permit for Pan American, with the understanding that the GVN might limit Pan American's carriage of local traffic on the Singapore route to two of the present three weekly flights. The GVN agreed to study the proposal but reiterated its desire to negotiate a bilateral civil air agreement.

5. The US Embassy has indicated that since Air Vietnam does not fly to the US, the mutual interest and reciprocity that underlie most bilateral agreements are lacking in this case. At a meeting on 10 June, Dui Diem, adviser to Premier Ky, stated that he thought the GVN should first attack the problem of Air Vietnam's competitive position on routes where it competes with Pan American and only later move on to the question of prestige associated with having a bilateral agreement with the US.

#### Banking

6. After rejecting a request from Chase Manhattan Bank for approval of an AID investment guaranty, the GVN reversed itself and approved investment guarantees for both Chase Manhattan and Bank of America, the two US banks that have received GVN approval to open branches in Saigon.

Last month, the GVN passed a new tax law, which would tax these banks 1.2 percent of capital invested in South Vietnam instead of 1.2 percent of total corporation capital as has been the case.

#### Taxes

7. An Internal Revenue Service team, which arrived in South Vietnam in mid-May at the request of the GVN, has been well received by the secretary of state for finance and officials of his department. The team has concluded that the GVN cooperated to the fullest extent with the IRS group, and that the Ministry of Finance desires assistance from the US to improve its revenue administration and organization. The team feels that with continued Vietnamese cooperation and reasonable political stability, the collection of revenues could be substantially increased even under existing Vietnamese laws.

#### Recent Trends in Industrial Production

8. According to an official GVN index, industrial output has continued to rise steadily since 1962, the base year of the index. In 1965, this over-all index showed a gain of 20 percent above 1964 and 36 percent above 1963.

9. Although industrial production index figures are not yet available for the first quarter of 1966, recently available data on the physical output of individual commodities during this period suggest a continuation of the upward trend evident since 1962. Output of several of the products most heavily weighted in the composite index was well above that recorded during the corresponding period of 1965. Gains ranging from 12 to 36 percent were recorded for paper, cement, beer, soft drinks, refined sugar, cotton yarn, oxygen, and acetylene.

10. Production of cotton yarn, however, probably will suffer a setback in the second quarter as a result of the VC attack in April on the Sicovina textile mill, a major cotton spinning mill located at Thu Duc. The extensive damage inflicted on this

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mill has been estimated as high as \$1 million. Data on the output of electricity, available only for January and February, show that electricity output increased 20 percent over the first two months of 1965, and also exceeded the 1965 monthly average.

11. Production of glass was slightly below that of the first three months of 1965, but on a monthly basis was still running well above the 1965 average. Processed tobacco, which weighs heavily in the over-all index, also was down slightly. The most notable decline, however, was in woven cotton fabric, the output of which was 13 percent below the first quarter of 1965 and 20 percent below the 1965 monthly average.

12. No new data are available this week for the South Vietnam Economic Indicator graphics.

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ANNEX

Weekly Retail Prices in Saigon a/  
 (In Piasters)

	3 Jan 1966	9 May 1966	16 May 1966	23 May 1966	31 May 1966	Percent Change from Mo. Ago	Percent Change from Yr. Ago
Index for all Items b/	<u>160</u>	<u>156</u>	<u>158</u>	<u>161</u>	<u>164</u>	+ <u>9</u>	+ <u>59</u>
Index for Food Items b/	<u>169</u>	<u>164</u>	<u>166</u>	<u>171</u>	<u>174</u>	+ <u>12</u>	+ <u>72</u>
Of which:							
Rice/Soc Nau (100 kg.)	800	1,100	1,100	1,150	1,150	+ 7	+ 26
Pork Bellies (1 kg.)	70	70	70	70	70	0	+ 40
Fish/Ca Tre (1 kg.)	110	110	110	105	110	0	+175
Nuoc Mam (jar)	50	65	70	70	70	+17	+ 56
Index for Non-Food Items b/	<u>124</u>	<u>126</u>	<u>126</u>	<u>126</u>	<u>129</u>	- <u>1</u>	+ <u>16</u>
Of which:							
Charcoal (60 kg.)	440	450	450	450	480	- 3	+ 12
Cigarettes (pack)	10	10	10	10	10	0	+ 25
White Calico (meter)	27	27	27	26	26	- 4	+ 8
Laundry Soap (1 kg.)	30	32	32	32	32	0	+ 26

a/ Data are from USAID sources.

b/ For all indexes, 1 January 1965 = 100.

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